



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 2/7/2009

GAIN Report Number: RS9006

Russian Federation

Dairy and Products

Import Duties Raised on Milk and Butter

2009

Approved by:

Mary Ellen Smith
U.S. Embassy

Prepared by:

Erik Hansen, Mikhail Maksimenko

Report Highlights:

The Russian government announced two new resolutions which will increase the import duty on butter (derived from milk) to not less than 0.35 Euro/kg, up from 0.22 Euro/kg; and on milk and cream from 15 percent ad valorem to 20 percent. Russian government officials have stated in recent weeks that these new measures are aimed at protecting domestic dairy farmers from "unfair competition". The new duties take effect March 7, 2009 and will be in place for a period of 9 months. In 2008, the United exported roughly \$50 million worth of both of these commodities.

Includes PSD Changes: No
Includes Trade Matrix: Yes
Trade Report
Moscow [RS1]
[RS]

Table of Contents

Executive Summary	3
Unofficial Translation of Resolution No. 71	3
Unofficial Translation of Resolution No. 72	4
Production	4
Ministry of Agriculture Takes Measures to Support Milk Production.....	5
Trade.....	5
Table 1. Russia: Imports of Select Dairy Products, Jan-Sep 2006-08, in MT	6
Table 2. Russia: Imports of Select Dairy Products, Calendar Year 2005-07, in MT.....	6
Table 3. Russia: Imports of Milk & Cream, By Country, Jan-Sep 2006, 2007, and 2008, in MT.....	6
Table 4. Russia: Imports of Butter, By Country, Jan- Sep 2006, 2007, and 2008, in MT	7
Other Relevant Reports	7

Executive Summary

On January 31, 2009, the Russian government announced Resolution No. 71 that will increase the import duty on butter (derived from milk) to not less than 0.35 Euro/kg, up from 0.22 Euro/kg; and Resolution No. 72 that increases the import duty on milk (and cream) from 15 percent ad valorem to 20 percent. Minister of Agriculture Aleksey Gordeyev stated recently that production costs for domestic milk is higher than farmgate prices. In addition, several prominent Russian government officials have commented in recent weeks that these new measures are aimed at protecting domestic dairy farmers from "unfair competition" claiming that major exporting countries greatly subsidize their dairy sectors and, thus, give them an unfair advantage. The new duties take effect March 7, 2009 and will be in place for a period of 9 months. In 2008, the United States exported roughly \$50 million worth of both of these commodities.

Russia significantly increased imports of dairy products in 2008. Dairy butter imports from January-September 2008 reached 65,000 MT (valued at \$192 million), compared to 58,557 MT (valued at \$119 million) during the same time in 2007. Major suppliers to Russia of dairy butter include New Zealand, Finland and the United States. Imports of milk and cream to Russia reached 18,115 MT from January-September 2008 (valued at \$56 million), compared to 3,411 MT (valued at 14 million), during the same period a year earlier. Whey imports are up 33 percent – from 34,457 MT in January-September 2007 to 45,870 MT from January to September 2008.

The new resolutions were published in the official Russian government newspaper Rossiiskaya Gazeta and can be found at the following URLs:

<http://www.rg.ru/2009/02/06/maslo-dok.html>

<http://www.rg.ru/2009/02/06/moloko-dok.html>

Unofficial Translation of Resolution No. 71

BEGIN TEXT:

Resolution #71 issued January 31, 2009 and titled, "On temporary import duties on butter derived from milk, and separate types of dairy products".

The Russian government decrees the following:

1. To approve, for a period of nine months, import duties on butter and other fats and oils derived from milk and dairy spreads (TN VED code of Russia 0405¹) contained in the Commodity Nomenclature of Foreign Economic Activity of the Russian Federation (FEACN of Russia), approved by "Resolution of the Russian Government of November 27, 2006 #718 "On the Customs Tariff of the Russian Federation and the Commodity Nomenclature of Foreign Economic Activity", at the level of 15 percent of the customs value, but not less than 0.35 Euro/kg.

For the purpose of applying the rates of import duty, commodities are determined exclusively by codes of TN VED of Russia. Commodity names are listed only as a courtesy.

¹ All imported commodities are classified in accordance with the Codes of the Customs Commodities' Nomenclature of the Foreign Economic Activity of the Russian Federation and their descriptions can be found at <http://tks.ru/db/tnved>. These codes are close, but not identical, to the Harmonized System.

2. The present Decree enters into force from one month after its official publication.

Chairman of the Government of the Russian Federation
Vladimir Putin
END TEXT.

Source: Official newspaper Rossiiskaya Gazeta, February 6, 2009.

Unofficial Translation of Resolution No. 72

BEGIN TEXT.

Resolution #72 issued 31 January, 2009 "On temporary import duties on separate types of milk and cream"

The Russian Government decrees the following:

1. To approve for the period of nine month import duties at the level of 20 percent of the custom value on milk and cream, concentrated or containing added sugar or other sweetening matter (TN VED code of Russia 0402, excluding code TN VED of Russia 0402 29 110 0) contained in the Commodity Nomenclature of Foreign Economic Activity of the Russian Federation (FEACN of Russia) approved by Resolution of the Russian Government of November 27, 22006 #718 "On the Customs Tariff of the Russian Federation and the Commodity Nomenclature of Foreign Economic Activity". For the purpose of applying the rates of import duty, commodities are determined exclusively by codes of TN VED of Russia. Commodity names are listed only as a courtesy.

2. The present Decree enters into force from one month after its official publication.

Chairman of the Government of the Russian Federation

Vladimir Putin
END TEXT.

Source: Official newspaper Rossiiskaya Gazeta, February 6, 2009.

Production

Domestic milk output remains well below the target outlined in Russia's National Priority Project (NPP) for Agriculture. The number of cows in milk is forecast to decrease slightly to 9.7 million head in 2009 compared to 9.8 million head in 2008. Ministry of agriculture officials expect the national herd milk yield average in 2009 to reach 4,000 kilograms per cow compared to 3,798 liters per cow in 2007. This is well below the genetic potential of imported pedigree dairy cows and leaves room for considerable growth in Russia's average per-cow productivity merely through better nutrition, proper veterinary care, and adoption of modern herd management practices.

The Russian ministry of agriculture recently announced a new draft program titled, "Development of Dairy Cattle Breeding and Increase of Milk Production in 2009-2012". This program aims to introduce modern industrial technologies in milk production by improving the quality of dairy cattle breeding. For example, the program would provide subsidies to dairymen for purchase of registered pedigree dairy cows, pedigree bovine semen, and bovine embryos. The program aims to increase milk production from 32 million metric tons (MMT) in 2007 to 37 MMT by 2012. Per cow milk annual productivity might reach 3,950 MT, and

calf crop – 78 heads in 2009. In order to attain a stable domestic milk supply and level seasonal milk production it was also envisaged to commence intervention in the Russian powdered milk market. The total volumes of subsidies from the Federal budget will account for 20 billion rubles (approximately \$556 million²).

Approximately half of Russia's milk production is still produced on private subsidiary plots. In 2007, the last year for which complete data are available, out of 32.2 MMT of milk produced in Russia, 16.3 MMT was produced in the commercial dairy sector. As the aging rural population continues to dwindle, and is not replaced, room for expansion by profitable commercial dairy farms is expected to unfold. In general, commercial dairy farms showing gross profitability of at least 35% tend to stay in business and expand; dairy farms with lower than 35% gross profitability tend to go out of business.

Ministry of Agriculture Takes Measures to Support Milk Production

The Russian ministry of agriculture is taking steps to push for higher milk farmgate prices in order to stimulate milk production. The current slow growth rate of milk production can be attributed to a drop in purchase price for milk and reduced demand caused by higher imports of powdered milk. As a result, the ministry of agriculture pushed through a new technical regulation on milk and milk products where products manufactured with any amount of powdered milk must be called milk beverage and not milk (RS8046). This technical regulation is expected to lead higher demand for fluid milk enabling agriculture producers to obtain better prices.

Trade

Russia significantly increased imports of dairy products in 2008. Dairy butter imports from January-September 2008 reached 65,000 MT (valued at \$192 million), compared to 58,557 MT (valued at \$119 million) during the same time in 2007. Major suppliers to Russia of dairy butter include New Zealand, Finland and the United States. Imports of milk and cream to Russia reached 18,115 MT from January-September 2008 (valued at \$56 million), compared to 3,411 MT (value at 14 million), during the same period a year earlier. Whey imports are up 33 percent – from 34,457 MT in January-September 2007 to 45,870 MT from January to September 2008.

Minister of Agriculture Aleksey Gordeyev stated at a Federation Council meeting in the autumn of 2008 that Russia must produce 95 percent of all dairy products consumed in order to achieve true food security. Currently domestic dairy production manages to provide roughly 73 percent of locally produced dairy products. Gordeyev also stated that Russia does not need to be importing such high volumes of dairy products such as cheese, dry milk and butter and complained that major suppliers of dairy to Russia significantly subsidize their producers putting Russian dairymen at an unfair advantage. Gordeyev promised to take measures that would curb this trend.

² 1 USD = 36 RUR

Table 1. Russia: Imports of Select Dairy Products, Jan-Sep 2006-08, in MT

HS Code	Description	Jan-Sep 2006	Jan-Sep 2007	Jan-Sep 2008	% Change 08/07
0406	Cheese And Curd	151,136	167,923	185,732	11
0405	Butter, Oils From Milk	85,084	58,557	65,006	11
0402	Milk, Conc Milk, Sweet	7,043	3,411	18,115	431
0404	Whey, Other Milk Prods	35,467	34,457	45,866	33
0403	Buttermilk, Yogurt, Etc	8,640	19,469	14,643	-25
0401	Milk, Cream, N Swt/Conc	6,821	8,748	9,108	4

Source: World Trade Atlas

Table 2. Russia: Imports of Select Dairy Products, Calendar Year 2005-07, in MT

HS Code	Description	CY 2005	CY 2006	CY 2007
0406	Cheese And Curd	259,793	218,442	234,253
0405	Butter,Oils From Milk	82,579	112,041	75,257
0404	Whey,Other Milk Prods	68,274	47,588	55,723
0403	Buttermilk,Yogurt,Etc	15,956	13,377	24,571
0402	Milk,Cream Conc,Sweet	35,511	8,209	13,035
0401	Milk,Cream,N Swt/Conc	10,464	10,640	12,423

Source: World Trade Atlas

Table 3. Russia: Imports of Milk & Cream, By Country, Jan-Sep 2006, 2007, and 2008, in MT

Rank	Country	Jan-Sep 2006	Jan-Sep 2007	Jan-Sep 2008	% Change 08/07
	The World	7,043	3,411	18,115	431
1	Ukraine	5,180	1,075	10,733	898
2	Czech Republic	4	62	2,269	3,572
3	United States	47	18	1,545	8,415
4	Germany	245	438	838	91
5	Sweden	0	0	500	0
6	Poland	1	140	425	203
7	Finland	265	384	405	6
8	U.K.	0	0	247	0
9	Lithuania	259	62	220	257
10	Austria	75	127	174	37

Source: World Trade Atlas

Table 4. Russia: Imports of Butter, By Country, Jan- Sep 2006, 2007, and 2008, in MT

Rank	Country	Jan-Sep 2006	Jan-Sep 2007	Jan-Sep 2008	% Change 08/07
	The World	85,084	58,557	65,006	11
1	New Zealand	29,994	21,647	17,710	-18
2	Finland	11,485	12,341	13,868	12
3	United States	250	54	13,572	25,033
4	Argentina	5,726	3,214	8,733	172
5	Australia	3,979	1,216	2,433	100
6	Uruguay	2,225	4,224	1,725	-59
7	Poland	8,441	5,690	1,285	-77
8	Germany	4,979	1,402	1,120	-20
9	France	965	821	1,089	33
10	Belgium	1,939	2,054	936	-54

Other Relevant Reports

RS8098 Dry Milk State Interventions will be Implemented in 2009
<http://www.fas.usda.gov/gainfiles/200901/146327026.pdf>

RS8084 Dairy Annual Report
<http://www.fas.usda.gov/gainfiles/200811/146306314.pdf>

RS 8046 Russia Changes Definition of "Milk"
<http://www.fas.usda.gov/gainfiles/200806/146294951.pdf>